

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5754

SUPERINTENDENT OF PUBLIC INSTRUCTION

Agency No. 350

July 1, 1995 Through June 30, 1996

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SUPERINTENDENT OF PUBLIC INSTRUCTION

Agency No. 350

July 1, 1995 Through June 30, 1996

Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Superintendent of Public Instruction included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for the Superintendent of Public Instruction.

Brian Sonntag
State Auditor

December 20, 1996

SUPERINTENDENT OF PUBLIC INSTRUCTION

Agency No. 350

July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. The Office Of The Superintendent Of Public Instruction (SPI) Should Follow State Travel Regulations

SPI failed to comply with state travel regulations for the third consecutive year. During our fiscal year 1996 audit, we noted the following instances of noncompliance. This same condition was previously reported in both the fiscal year 1994 and fiscal year 1995 *State of Washington Single Audit Report*, Finding 1 and Finding 2, respectively.

At eight of eleven conference and meeting sites, SPI did not submit written documentation of the cost analysis used in the decision to hold the conferences and meetings at non-state facilities. In addition, meals provided at two of the conferences exceeded the per diem rate in the amount of \$510.66.

The Office of Financial Management's (OFM) *Policies, Regulations, and Procedures* manual, section 4.2.1.2.2.a. states in part:

- (1) The state agency's primary criterion is that which is most economical to the state.

Section 4.2.1.3.4.b. states:

Where a convention, conference, training session, or meeting held or sponsored by the state is conducted at a barrier-free non-state facility, the person responsible for the choice of location and facilities is to submit justification in advance in writing to the agency head or authorized designee for approval. The justification is to include:

- (1) The purpose and objective of the meeting;
- (2) The name of the organizations or persons expected to attend and an estimate of the attendance;
- (3) An estimate of the anticipated cost to the state, including the travel cost of employees; and
- (4) An explanation why state-owned barrier-free facilities cannot be used.

Section 4.2.7.2.2. defines the maximum allowable per diem rates authorized by OFM.

Without proper written documentation considering cost or justifying the selection of non-state facilities, SPI cannot provide assurance that the costs

were most economical to the state. Paying in excess of the established meal and lodging rates resulted in unauthorized expenditures. Without proper completion of travel vouchers, state funds could be expended on unallowable travel costs.

This condition continued to occur despite written internal policies to the contrary because agency management has failed to enforce these state requirements.

We recommend SPI comply with OFM regulations when selecting meeting sites and paying per diem expenses.

Auditee's Response

This office concurs with the finding. In order to forestall further findings in this area, OSPI will take the following measures:

- a. *Assign a specific employee to review and approve all proposed meetings, conferences, and training sessions for compliance with the OFM Policies, Regulations and Procedures manual requirements, specifically regarding appropriate per diem rates **and** site selection documentation.*
- b. *Conduct additional staff training in all matters pertaining to allowable expenses for meetings, conferences, and training sessions.*

Auditor's Concluding Remarks

We agree with the agency's planned corrective action and will review the implementation of these procedures during the next audit.

2. The Office Of The Superintendent Of Public Instruction (SPI) Should Comply With State Regulations Regarding Consumable Inventory

SPI has not maintained or accounted for the agency's consumable inventories in accordance with state regulations as follows:

- a. SPI does not have adequate policies and procedures in place over consumable inventory.
- b. SPI did not follow OFM procedures when conducting the annual inventory count.
- c. The inventory officer did not document in writing the staff responsibilities, physical count planning and procedures, or instructions on how the physical inventory was to be completed.
- d. The differences between the perpetual inventory listing and the physical year-end count were not investigated or explained.
- e. Office supplies are not stored in an area where access is limited to only authorized personnel.
- f. There is not a proper separation of duties between receiving, issues, and adjustments entered into the perpetual system.

The State of Washington Office of Financial Management's (OFM) *Policies, Regulations, and Procedures* manual, Section 3.2.1.1.1 states in part:

The agency head and the designated inventory officer(s) are responsible for implementing the inventory policies and procedures. Included in this responsibility is . . . developing and implementing procedures to control and account for the . . . consumable inventories; planning, conducting, and reconciling physical inventories with inventory records; documenting selected inventory method; documenting physical inventory procedures; and performing other duties necessary to account for and report . . . consumable inventories.

Section 3.1.1.2.2.a. states in part:

A physical count of . . . consumable inventories, where appropriate, is to be taken . . . Staff responsibilities, physical count planning and procedures, and instructions are to be documented in writing.

Section 3.2.1.3.3 states:

Inventory instructions are to be documented and distributed to those personnel involved in the physical count. They are to be specific and anticipate as many questions as possible considering the circumstances of the inventory. Each participant is to be informed that their signature is required on each page of the inventory listing containing assets counted by the participant. This signature attests to and fixes responsibility for the accuracy of the count.

Section 3.2.1.3.4.a states in part:

Differences are to be investigated and explained, corrective action instituted when deemed necessary, and the accounting records adjusted . . .

Section 6.2.2.1.9.f states:

State supplies and equipment not currently in use are to be stored in areas where access is limited to authorized personnel only. Storerooms or warehouse where such property is kept are to be kept locked when not occupied and during other than normal working hours. Special protective measures are to be taken for items having a high pilferage rate or high value.

Section 6.1.1.2.4.b.(1) states in part:

Whenever possible, no individual is to have complete control over any type of asset in any agency, department, or division of the state.

The inadequate consumable inventory procedures increases the risk that errors or irregularities could occur without detection.

The weaknesses noted above were caused by the lack of written policies and procedures to provide direction to staff and ensure compliance with state regulations. In addition the SPI

employees involved in the inventory process were not aware of the state regulations regarding consumable inventories.

We recommend that SPI establish adequate policies and procedures which will account for and maintain the consumable inventory system.

Auditee's Response

This office concurs with the finding and will take the following corrective actions:

- a. *OSPI will adopt and print consumable inventory policies and procedures.*
- b. *OSPI will conduct annual inventory counts in accordance with OFM procedures.*
- c. *OSPI will make specific staff assignments for conducting inventories and separating duties between receiving, issuing and inventory adjustments.*
- d. *OSPI will document all adjustments made to the perpetual inventory system.*

OSPI has already implemented limited access to the supply room by physically relocating, in an easily viewed area, the check-out station. Because of staff limitations and the need to operate the stock room via an on-line, real-time interactive charging system, we cannot make cost effective or efficient changes to provide any greater security over stock room supplies.

Auditor's Concluding Remarks

We agree with the agency's planned corrective action and will review the implementation of these procedures during the next audit.

3. The Office Of The Superintendent Of Public Instruction (SPI) Should Follow State Purchasing Regulations

During our audit of SPI's purchasing system we noted exceptions with purchases by the Commission on Student Learning Division (CSL) as follows:

- a. Half of the total office supplies purchased were from Office Depot between July 1995 and April 1996. These supplies should have been purchased from Central Stores.
- b. Purchases were not properly approved by the purchasing officer prior to ordering or payment.

The General Authorities from the Office of State Procurement Section G.1 Basic General Authority states in part:

An agency may conduct a purchase if it is \$10,000 or less except when the item is:

- a. On mandatory state contract,
- b. A mandatory item at Central Stores,
- c. A purchase required to be referred to OSP,
- d. Otherwise covered by the following authorities.

The Office of Financial Management's, *Financial and Administrative Policies, Regulations, and Procedures Manual*, Section 2.2.3.2.3.a. states in part:

At a minimum, payment processing documentation should include evidence of authorization for purchase, receipt of goods or services, and approval for payment. The following documentation, or equivalent, is to be maintained . . . (2) Purchase Requisition . . . (5) Field Order

Purchasing goods from vendors without considering state contracts could result in unnecessary costs. Circumventing the controls by purchasing goods without approved purchase request forms and field orders could result in disbursements which are unlawful or exceed encumbrances.

The out-of-compliance conditions occurred due to CSL's failure to follow agency-established procedures. Additionally, the instances of noncompliance continued to occur for at least ten months because centralized internal controls designed to identify and rectify noncompliance of this type did not operate effectively.

We recommend that SPI:

- a. Follow the General Authorities from the Office of State Procurement when purchasing goods or services.
- b. Obtain proper approval prior to purchasing or paying for goods.

Auditee's Response

This office concurs with the finding, and the Commission on Student Learning has already implemented procedures to fully eliminate any recurrence of this finding.

Auditor's Concluding Remarks

We commend the agency's prompt action and commitment to resolution of these issues and will review the implementation of corrective procedures during the next audit.

We would also like to thank agency management and staff for their cooperation and assistance during the audit.